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HPSCI

OEXA 82-2665
22 April 1982

MEMORANDUM FOR THE RECORD

SUBJECT: 22 April House Permanent Select Committee on Intelligence Briefing on East European and LDC Economic Debt [redacted] 25X1

1. The House Permanent Select Committee on Intelligence (HPSCI) convened in H-405, The Capitol, on 22 April 1982 at 1400 hours to receive testimony on the East European and LDC economic debt. The Honorable Lee H. Hamilton presided. [redacted] 25X1

2. Members present were: [redacted] 25X1

Lee H. Hamilton (D., IN)	J. Kenneth Robinson (R., VA)
Norman Y. Mineta (D., CA)	Robert McClory (R., IL)

3. Present from the Committee were: [redacted] 25X1

Michael J. O'Neil	Richard H. Giza
Leon Fuerth	James O. Bush

4. Present from Central Intelligence Agency (CIA) were: [redacted] 25X1

[redacted] 25X1

Director, Office of European Anaylsis/DDI
Office of European Anaylsis/DDI
Office of Soviet Analysis/DDI
Office of Global Issues
Chief, Congressional Support Staff, Directorate of Intelligence
Legislative Liaison Division

5. After welcoming and introducing the witnesses, Mr. Hamilton stated the topic at hand--Eastern European debt and the ramifications of that debt. He then allowed them to proceed. [redacted] 25X1

6. [redacted] began the testimony by outlining the aspects to be covered by each witness. [redacted] will address the East European credit situation and debt renegotiations, [redacted] will handle questions regarding LDC debt and credit problems and [redacted] will conclude with a discussion of the Soviet hard currency debt and credit sanctions. [redacted] 25X1 25X1 25X1 25X1 25X1

[redacted] 25X1

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7. [redacted] led off the substantive portion by defining Eastern Europe as COMECON members including Poland, Romania, Czechoslovakia and Bulgaria and by giving some general background on these countries' ecomonic debt. While all these countries share the problem of financial debt, each country requires a different solution. Some have debt servicing problems which require rescheduling, others have short term liquidity concerns. Still others have current account deficit adjustment problems, while others are running account surpluses and are in fact reducing their debt [redacted] 25X1

8. After providing a detailed statistical breakdown of each country's debt problems, [redacted] opened the floor for questions. Mr. McClory's first question centered around the potential domino effect of a major default of an Eastern European country. Would such a default plunge us worldwide into a deeper economic crisis than we are already experiencing? In response, [redacted] stated that it is unlikely that such a scenario would enfold. A chain effect would occur only if the crisis of confidence continues on the bankers' side and the government pushes a little bit further. Although it is certainly possible that Poland or Romania could default, our assessment is that the system could cope with it. Raising another question relating to default, Mr. McClory inquired whether the resources of the IMF are substantial enough to solve all the problems of a threatened default. Rather than addressing the specific issue of resources, [redacted] explained that IMF membership is viewed by the bankers--particularly if a standby arrangement with a stabilization program is negotiated--as a stamp of approval by an impartial international financial institution. Mr. McClory ended his line of questioning by asserting that communism does not work. [redacted] 25X1

9. Mr. Hamilton then asked numerous questions about the state of the Polish economy. What are the consequences of a Polish default? What does this mean for the United States? How would the spillover effect of the Polish situation impact on other East European countries such as Romania and Yugoslavia? Responding to the first query, [redacted] explained that if Poland does not pay back its principal and interest payments, their creditors will then take legal action to try to recover what they can from Polish assests in order to cover the debt service payments. As far as the U.S. is concerned, [redacted] stated that we would lose some debt servicing. At the close of 1981, Poland owed the U.S. approximately 3.2 billion dollars, which [redacted] indicated would be irrecoverable. It might be worthwhile, however, for the U.S. to write off this debt rather than to extend more credit. Since the debt problems encountered by other East European countries are so intricate, the remainder of the briefing was devoted to an in-depth discussion on the individual countries. [redacted] 25X1

10. In concluding this session, Mr. Hamilton raised some general questions about the LDC debt. In response to Mr. Hamilton's question

regarding the 350 billion dollar figure for LDC debt which was provided earlier in the session [redacted] stated it was accurate, depending upon how one classifies LDC. The figure could be higher if you include certain other countries. 25X1
We are most concerned, according to [redacted] with the fifteen major debtors which account for seventy-five percent of the total LDC debt. Of particular concern are Mexico, Brazil and Argentina, which although not in default at the present, are exhausting their credit limit with US banks. [redacted] 25X1

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